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THE LEAST DEVELOPED COUNTRIES REPORT 2013

Growth with employment for inclusive and sustainable development

CHAPTER 2

EXPLORING DEMOGRAPHIC DYNAMICS IN THE LDCs

UNITED NATIONS
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A. Rationale for addressing growth with employment for inclusive and sustainable development in the LDCs

As explained in chapter 1, despite recently sluggish economic performance, the LDCs have generally enjoyed more than 10 years of economic growth. Per capita income for the group as a whole has been steadily expanding, raising hopes that some of them may even be able to graduate from the category within the decade. There are, however, worrying signs that this growth trend has not been inclusive and that its contribution to poverty reduction has been limited. The main explanation for the lack of inclusiveness is that such growth as there has been has not generated enough "quality" jobs – that is, jobs offering higher wages and better working conditions – especially for the young.

The LDCs have generally enjoyed more than 10 years of economic growth.

Jobless growth is not unique to LDCs. Many other developing countries, including some advanced economies, have also experienced growth without a concomitant creation of jobs. However, the special conditions of LDCs – structurally weak economies with a high incidence of poverty, accelerating urbanization and worrisome demographic patterns – make it imperative that they create a sufficient number of remunerative jobs to reduce poverty and avert any potential social and political tensions.

Such growth as there has been has not generated enough "quality" jobs, especially for the young.

This chapter documents the extent to which the LDCs' employment growth lagged behind their rapid GDP expansion during the 2000s. That lag has understandably generated serious concerns among LDC policymakers, which is why the Report addresses the growth and employment nexus. Periods of relatively rapid GDP growth, such as that experienced in the past decade, have apparently failed not only to provide jobs for new entrants to the labour force, but also to clear the backlog of open and disguised unemployment that typically prevails in most LDCs. The question is: What will happen if economic growth decelerates?

The LDCs' employment growth lagged behind their rapid GDP expansion during the 2000s.

As discussed in chapter 1, the growth of GDP in the LDCs, both in the current decade and in mid-term forecasts, points clearly to a less dynamic growth pattern than in the previous decade. There are thus compelling reasons for a policy emphasis on employment generation as a central development objective. Indeed, this is increasingly recognized by LDCs as an urgent development goal, including in the context of the post-2015 development agenda. Not all LDCs are rich in mineral resources and other natural endowments. For most of these countries, their most valuable asset is their people, in particular the young. It is only by engaging their people in productive employment that they can ensure that growth is inclusive and that it contributes to poverty reduction and sustainable development.

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What explains the failure to translate high output growth in LDCs into rapid employment growth, and why is the employment issue such an immediate development challenge for these countries?

There are well-known structural impediments to employment generation in LDCs and other low-income countries, which have been well documented in the development literature. They mainly concern the absence of capital and other features of underdevelopment, such as infrastructural bottlenecks, which act as constraints on development. As was noted in LDCR 2006: "One consequence of the combination of a deficiency of domestic demand on the one hand, and of weak capabilities, infrastructure and institutions for being internationally competitive on the other hand, is that productive resources and entrepreneurial capabilities are underutilized within the LDCs owing to lack of demand and structural weaknesses. There is surplus labour, latent entrepreneurship, untapped traditional knowledge, a vent-for-surplus through exporting and unsurveyed natural resources. Policy thus needs to be geared to mobilizing these underutilized potentials."

In addition, the policy discussion of the past decade on national development in LDCs has tended to focus on growth, changes in per capita incomes and the structure of output, rather than on the development of productive capacity and the level and composition of employment. This has been based on two assumptions.

It has become evident across many developing countries that rapid and sustained output growth will not necessarily generate increases in aggregate employment or shifts towards more desirable forms of employment.

First, if GDP growth is sufficiently rapid, it will lead to productive transformation and will generate increases in aggregate employment, even if at a somewhat slower rate because of rising labour productivity.

Second, changes in the structure of output will be associated with changes in the structure of the labour force in the classic manner described by Kuznets (1973) and Kaldor (1966), so that growth through industrialization will generate shifts in the structure of the workforce as well.

Neither of these assumptions, however, can be readily accepted today, since it has become evident across many developing countries, including those described as dynamic and successful, that rapid and sustained output growth will not necessarily generate increases in aggregate employment or shifts towards more desirable forms of employment. In rethinking their development policy agenda, then, LDCs will need to pay closer attention to the employment dimension, which has so far been missing from the policy discussion on growth and economic development.

In many LDCs, public expenditure contraction after the global recession has been directed not only at such employment-intensive social sectors as health and education, but also at spending which directly affects agriculture.

The slow growth of employment in LDCs in recent years was also a result of the choice of sectors that were the main drivers of economic growth and the technologies associated with the emerging production process. GDP growth in many LDCs was primarily the product of exceptionally buoyant international conditions during the 2000s (LDCR, 2010). The steep increase in commodity prices which some authors termed a commodity supercycle (Kaplinsky, 2010; Erten and Ocampo, 2012) boosted LDC exports and GDP growth. The boom not only reinforced their existing specialization in primary commodities, but also encouraged investment inflows and the transfer of a capital-intensive production system. The result has been a weakened relationship between output and employment growth.

Furthermore, macroeconomic policies aimed at restricting domestic demand for stabilization purposes – policies that were applauded for the macroeconomic prudence they advocated – have also had adverse effects. Restrictive monetary policy regimes that target very low rates of inflation and reduce the credit access of small producers, and fiscal policies that emphasize fiscal discipline through reduced government spending, all tend to inhibit the possibilities of local employment generation. In many LDCs, public expenditure contraction after the global recession has been directed not only at such employment-intensive social sectors as health and education (Ortiz et al., 2011), but also at spending which directly affects agriculture, and which is typically a major source of livelihood. This leads to less direct job creation by government and also has a less direct impact through multiplier effects. These employment effects operate in addition to other redistributive effects of public expenditure and monetary and credit policies.

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For LDCs, the employment dimension is even more pressing today because of the demographic challenges they face, as explained in the rest of this chapter.

Given these challenges and the predominantly youthful demographic structure of most LDCs, there are additional reasons for the urgency of creating jobs that meet the aspirations and requirements of the young. Improving livelihoods and the quality of life for this growing population will require substantial investments in education to create a more skilled labour force. It will also necessitate the development of productive capacities through job creation to employ the growing labour force, and the development of infrastructure and housing to accommodate the service and amenity needs of new firms and households. In addition, unemployment and underemployment amount to a huge waste of national resources. If productive employment opportunities do not expand sufficiently for the growing LDC labour force, there may also be rising pressures for international migration from these countries, as documented and analysed in LDCR 2012 (UNCTAD, 2012). Therefore, a central challenge for LDC economic policymakers is to spur the creation of jobs for their rapidly expanding working-age population and at the same time improve the quality of those jobs.

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Providing decent employment for all is a major economic goal in and of itself, since putting people to work increases current and future income, consumption and investment for countries and for their citizens. But decent employment has even broader non-economic benefits. The LDCs are characterized by all-pervasive and persistent poverty. Moreover, a substantial majority of the population suffers from income poverty, which means that even when they do have jobs — most of which are in subsistence sectors — many people cannot escape poverty. Reducing poverty under these conditions requires inclusive development strategies that can generate productive employment. Creating more jobs and better jobs — which is what decent employment is all about — is thus the only sustainable way to alleviate poverty.

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Social and political stability is another area where the benefits of high levels of productive employment are evident. It is perhaps no coincidence that high youth unemployment rates have become a structural characteristic of the countries in North Africa where the so-called “Arab Spring” movements began in 2011 (Groth and Sousa-Poza, 2012; ILO, 2011). Decent employment, by contrast, enables individuals to live the kind of lives they have reason to value. This premise reflects the view of development as a process of enhancing individual freedoms and of mobilizing the social commitment required to attain them (Sen, 1999).

For all these reasons, the issue of how to respond effectively to the LDC employment challenge should be high on the agenda of policymakers in the near future. But this Report posits that policies to address that challenge should be different from those pursued in previous decades. They should be part of a new development agenda and should be integrally associated with strategies for developing productive capacities and encouraging structural transformation.

Social and political stability is another area where the benefits of high levels of productive employment are evident.

The central premise of the Report is that since the lack of productive employment in the LDCs is a consequence of the lack of productive capacities, employment creation on a large scale is intrinsically linked to the development of productive capacities. Indeed, economic development is ultimately about the transformation of productive structures — and more specifically, as discussed here, about shifting the majority of the labour force from low-productivity, low-technology and poorly remunerated activities to ones with higher productivity and higher value added. It also entails a process of diversification from a relatively small number of traditional activities to a much larger number of modern activities. The criteria used to define the category of least developed countries (low income, weak human assets and economic vulnerability) all stem from this fundamental lack of economic transformation and diversification into more productive activities. By definition, the LDCs are countries that are still in the early or incipient stages of the process.

While this aggregate movement from productive activities with lower technology and lower value to ones with higher technology and higher value is essential to development, it is by no means inevitable or even unidirectional. Reinert (2008) has shown how throughout history, and even in relatively recent times, countries have moved in varying trajectories that do not always show progress but that can involve slipping back even after achieving some degree of diversification. One example is the recent pattern of growth in Africa, where 34 of the 49 LDCs are located. That growth pattern has been accompanied by deindustrialization, as evidenced by the fact that the share of manufacturing in Africa's GDP shrunk from 15 per cent in 1990 to 10 per cent in 2008. The most significant decline was observed in western Africa, where it fell from 13 per cent to 5 per cent over the same period. So the notion of stages of development that presumes necessary movement from one stage to the next may be too optimistic: History, context and policies all matter critically. The increase in the number of LDCs over the past four decades, and the slow rate of graduation from LDC status, suggests that the forces which prevent or constrain productive transformation and employment generation are significant and often self-reinforcing. Nevertheless, they can be and have been overcome, as testified by the histories of today's developed countries and by the recent performance of some newly industrializing countries.

The central premise of the Report is that employment creation on a large scale is intrinsically linked to the development of productive capacities. Indeed, economic development is ultimately about the transformation of productive structures.

Bearing these historical patterns in mind, the rest of this Report sets itself four main tasks:

- First, it addresses the policy dimension of the employment challenge faced by the LDCs, as highlighted in the IPoA (see appendix 1), through an analysis of the potential opportunities and challenges of the demographic projections.
- Second, it provides a baseline assessment of the LDCs' recent labour market performance and of their future job creation needs.
- Third, it develops a policy framework with employment creation as a central objective of economic policy, linking investment, growth and employment creation with the development of productive capacities.
- Fourth, it makes specific policy proposals for generating employment-rich growth and development in the LDCs.

History, context and policies all matter critically. The forces which prevent or constrain productive transformation and employment generation are significant and often self-reinforcing. Nevertheless, they can be overcome.

The rest of the chapter focuses on the demographic transition as a critical dimension of the future employment challenges for the LDCs. The trend should sound a wake-up call to LDC Governments and to the entire international community.

Chapter 3 considers the quantity of employment (labour demand and supply trends) and quality of employment (working poor and vulnerable employment) in LDCs since 1990. It concludes with a brief discussion of the interaction between employment and growth in these countries.

Chapter 4 suggests a policy framework that links employment creation and the development of productive capacities in the LDCs. It builds on the ideas developed in UNCTAD's Trade and Development Report 2010, which proposed a strategy for rapid employment generation in developing countries. The strategy focused on investment dynamics coupled with policies to ensure that productivity gains are distributed equally between labour and capital (UNCTAD, 2010a). The objective of the policy framework in this Report is to identify the set of policies LDC Governments should implement if they wish to establish a strong link between growth, employment creation and the development of productive capacities. The framework is designed to provide a logical structure and to explain the rationale for choosing or preferring certain policies or policy approaches to others in order to meet the specific objective of increasing the employment intensity of growth. The framework also elucidates the sequences

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in which policies should be implemented and the conditions (institutional or otherwise) under which the preferred policies may be successfully executed. Finally, it illustrates the desired coherence and complementarity among the policies to be implemented.

Chapter 5 then formulates a coherent set of policies for employment-rich growth and development reflecting the key elements of the conceptual framework, which brings together growth, development of productive capacities and employment.

The LDCs are in the early stages of what has been termed a "demographic transition".

B. Exploring demographic dynamics in the LDCs

The LDCs are in the early stages of what has been termed a "demographic transition" (Bloom et al., 2001), which refers to the transition of countries from high birth and death rates to low birth and death rates. In developed countries, this transition began in the eighteenth century, while for LDCs it began much later, in the twentieth century.[1] In most LDCs, life expectancy is rising due to improvements in food supply, education and sanitation, and in the absence of a corresponding fall in birth rates, most of these countries are experiencing high rates of population growth. The LDC population is forecast to grow from 858 million in 2011 to 1 billion by 2020 and 1.7 billion by 2050.[2] By 2050, the LDCs should have a working-age population of 1.1 billion, compared to 469.9 million in 2010. However, large future increases in population may hinder the creation of employment opportunities on the required scale. This could entrench unemployment and underemployment[3] while making poverty alleviation less likely.

The LDC population is forecast to grow from 858 million in 2011 to 1 billion by 2020 and 1.7 billion by 2050.

The LDC youth population (aged 15–24 years) is becoming better educated and is growing fast, as it is set to rise to from 168 million in 2010 to 300 million by 2050, an increase of 131.7 million. The African LDCs accounted for 63 per cent of the total in 2010, a proportion that will reach 78 per cent by 2050. Of the 46 LDCs for which data are available, only Bangladesh, Bhutan, Cambodia, Laos, Lesotho and Myanmar are likely to experience a reduction in the youth population during the same period. Nonetheless, overall the youth share of the LDC working-age population will decline from 36 per cent in 2010 to 27 per cent by 2050.

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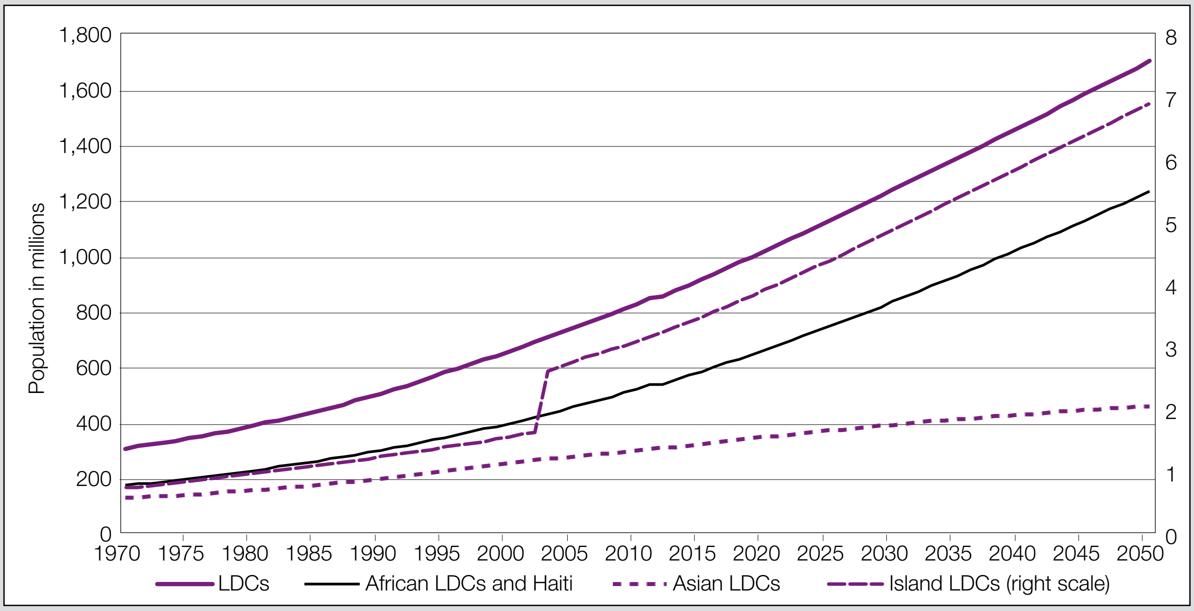
The analysis in this section of the Report focuses on the demographic dimension of the employment challenges faced by LDCs. The section highlights key baseline demographic trends in LDC life expectancy, fertility rates, dependency ratios, population growth and working-age population. Although treated here only briefly, educational enrolment, outcomes and investment are other important elements of the demography and employment discourse, and are discussed extensively in chapter 5. Women's participation in the labour force and other relevant gender issues are covered in chapter 3. This section concludes with a discussion of the potential employment implications of rising population densities, urbanization and migration in the LDCs.

The LDCs have the world's highest population growth rate, at 2.2 per cent per annum — almost twice the 1.2 per cent of other developing countries.

1. Key demographic trends in the LDCs

Although the LDCs have the world's highest population growth rate, at 2.2 per cent per annum — almost twice the 1.2 per cent of other developing countries (ODCs) — this rate is slowly declining. The LDC population doubled between 1980 and 2010 and should do so again by 2050 (see chart 6). As of 2011, the total LDC population was 858 million, approximately 12 per cent of the world population. Some 64 per cent of that population lives in Africa (548

Chart 6. LDC population, 1970–2050
(Absolute value, millions)



Source: UNCTAD secretariat calculations, based on UNCTADstat database.
Note: Timor-Leste was included in the LDC category in 2003, hence the sharp rise in the Island LDCs trend that year.

million), 36 per cent in Asia (306 million) and 0.4 per cent in island LDCs (3.1 million).[4] The world population was 7.0 billion in 2012 and is projected to reach 9 billion by 2050, of which the LDC population will account for 19 per cent.

Between 2010 and 2050, the LDC working-age population is expected to increase by an average 15.7 million people per year.

Within the LDC group, during the period 1970–2012, African LDCs had the highest population growth rate at 2.8 per cent per annum, which is above the overall LDC average of 2.5 per cent. The rates for island LDCs and Asian LDCs were lower, at 2.4 and 2.2 per cent, respectively. Chart 7 shows the countries with the highest population growth rates during the period 1970–2012: Djibouti (4.1 per cent), Gambia (3.5 per cent), Uganda (3.3 per cent), Niger (3.2 per cent) and Equatorial Guinea (3.1 per cent). Of these, the highest fertility rates were in Uganda and Niger (6.1 and 7.0 births per woman, respectively.). During the period 1950–2010, all five of the above-mentioned countries experienced a six-fold population increase, as compared to a four-fold increase for the LDCs as a group.

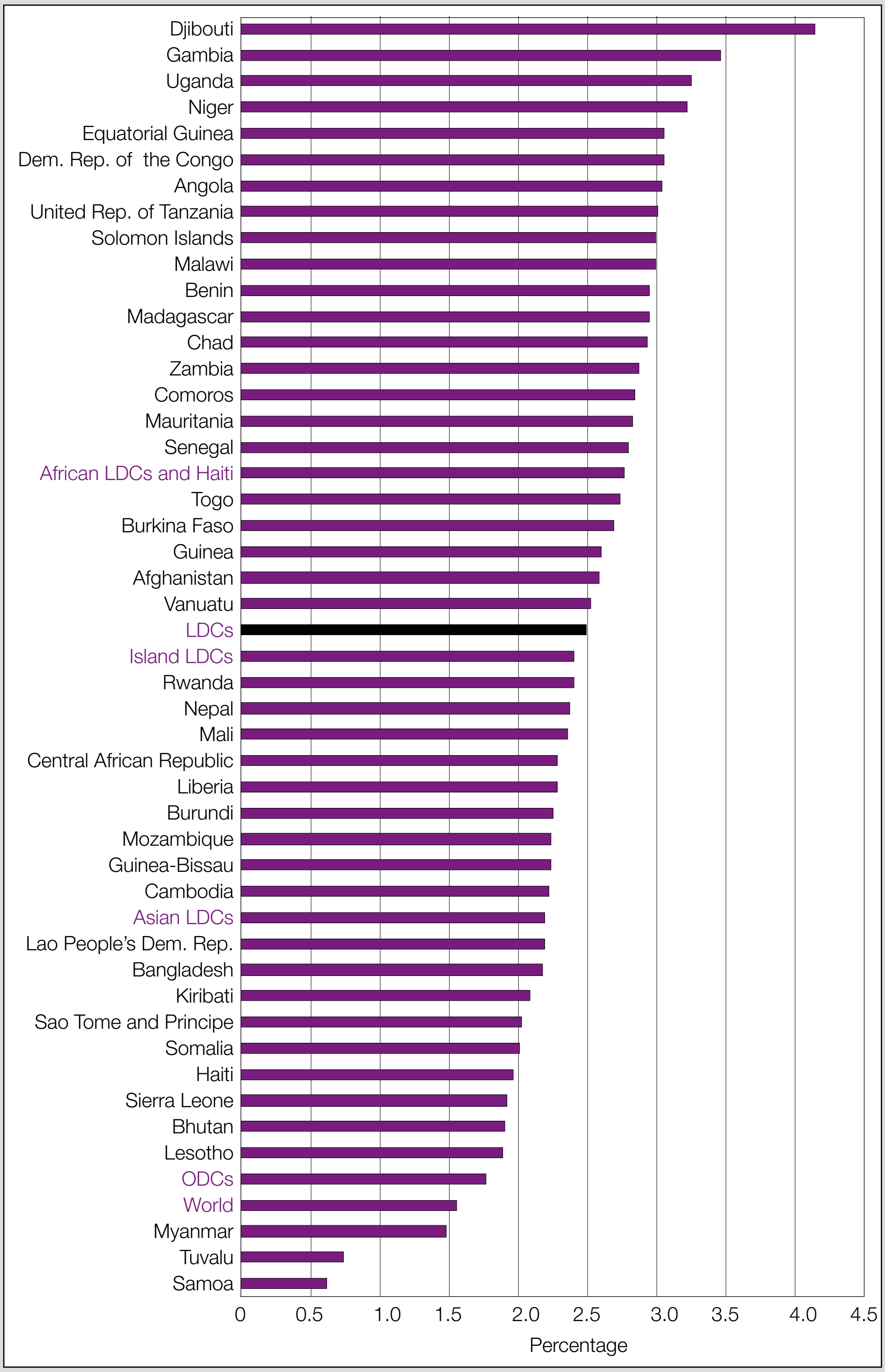
Whether these countries can exploit the potential "demographic dividend", however, will depend on their economies' capacity to absorb and productively employ new labour market entrants.

As mentioned earlier, between 2010 and 2050, the LDC working-age population (i.e., those between 15 and 64 years of age) is expected to increase by 630 million people, or an average 15.7 million people per year. By 2050, the least developed countries will account for 19 per cent of the global working-age population. Chart 8 shows that over the same period, in 11 LDCs that population is likely to rise by at least 0.5 million a year. The projected increases are highest in African LDCs: Democratic Republic of the Congo, Ethiopia, United Republic of Tanzania and Uganda, for example, will each increase their working-age population by more than 1 million people per annum. Of the Asian LDCs, Bangladesh will probably have the greatest such increase (935,000 people per annum). Whether these countries can exploit the potential "demographic dividend",[5] however, will depend on their economies' capacity to absorb and productively employ new labour market entrants.

The LDC fertility rate is nearly twice the world average.

The data presented in table 7 suggest that the LDC demographic transition is still in its early stages and is progressing at a relatively slow pace. Nonetheless, as was the case in China, this does not mean it cannot accelerate (Feng, 2011). Although since 1980 the LDC fertility rate has declined sharply, it remains above

Chart 7. Average annual population growth rate in the LDCs, 1970–2012

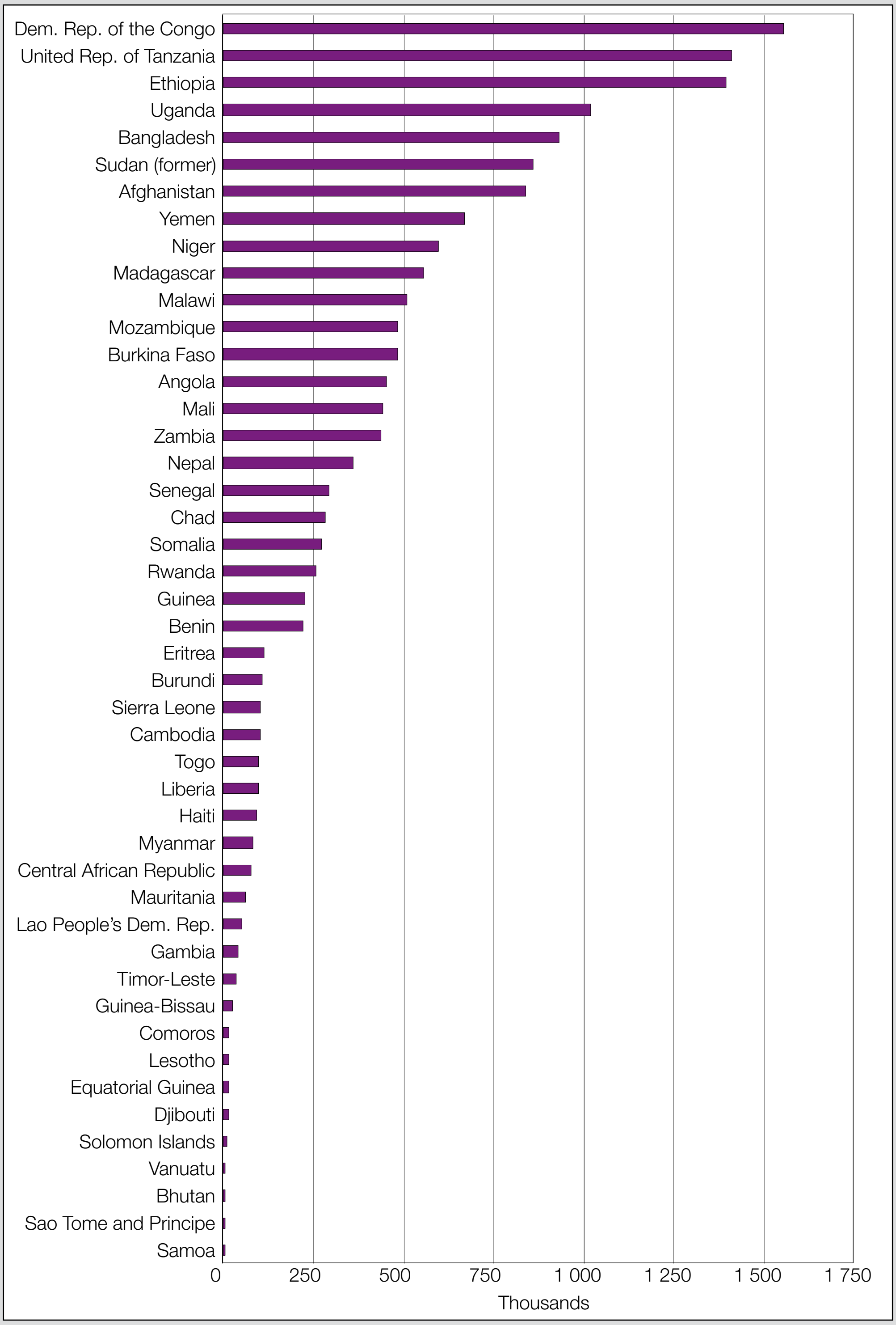


Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2012). *World Population Prospects: The 2012 Revision*, CD-ROM.

LDCs have the world's highest infant, child and maternal mortality rates.

four children per woman, nearly twice the world average. Alongside these high fertility rates, however, LDCs have the world's highest infant, child and maternal mortality rates. Since 1980, efforts to improve the outreach of health-care systems across these countries have lengthened life expectancy by 10 years; in 2011, the average was 58 years. Life expectancy in ODCs (68 years) and developed countries (77 years), however, is still considerably higher.

Chart 8. Average annual increase in the LDC working-age population 2010-2050
(Thousands)



Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2012). *World Population Prospects: The 2012 Revision*, CD-ROM.

The overall result of these trends has been a slight deceleration in the LDC population growth rate, which remains and will likely continue to be above 2 per cent per annum until 2020. That decline was particularly evident in the Asian LDCs, where it fell from an average 2.5 per cent in 1990–1999 to 1.6 per cent in 2000–2012 (see annex table 12 for data on individual LDCs).

Table 7. Broad demographic trends in the LDCs, 1980–2011

	1980	1990	2000	2011
Population, (millions)	389.9	510.1	658.4	843.7
Population growth (annual percentage)	2.7	2.7	2.4	2.2
Life expectancy at birth, total (years)	48.5	51.1	53.2	58.4
Fertility rate, total (births per woman)	6.5	6.0	5.3	4.5
Age dependency ratio (percentage of working-age population)	92.0	91.4	86.7	78.1
Labour force participation rate, total (percentage of total population ages 15+)		74.2	73.2	73.9
Adjusted net enrolment rate, primary (percentage of primary school age children)	52.9	52.7	59.1	79.8
Primary completion rate, total (percentage of relevant age group)	36.1	40.8	45.8	63.7
School enrolment, secondary (percentage net)	12.8	14.7	23.0	32.3
Literacy rate, youth total (percentage of people ages 15-24)		56.7	65.2	72.4

Source: UNCTAD secretariat calculations, based on UNTADstat and *World Development Indicators* online databases.
Note: 2011 is the most recent year for available data.

The relatively slow pace of the LDCs' demographic transition is clear when we consider population structure by age group, as represented in the "population pyramid" of chart 9. Throughout the period 1990–2020, approximately half of the people in LDCs are expected to be under 20 years of age and about 5 per cent over 60. This is a young demographic structure, which explains the high age dependency ratio[6] reported in table 7. However, there will also be a 6-percentage-point decline in the share of people under 10 years of age, and a corresponding increase in the three age groups between 20 and 49 years. By 2030, some 46 per cent of the LDC population will be under 20 years of age and about 6.5 per cent will be over 60 — a proportion that will almost double (to 10 per cent) between 1990 and 2050.

By 2030, some 46 per cent of the LDC population will be under 20 years of age.

As stated above, change has come slowly, since 38 per cent of the LDC population in 2015 will be under 15 years of age, 20 per cent will be between 15 and 24 years of age and 38 per cent between 25 and 64 years of age. By 2050, 29 per cent will be under 15 years of age, which is still above the projected proportion for ODCs (see chart 12). The number of LDCs where over 40 per cent of the population is under 15 years of age has declined, from 44 countries in 1990 to 33 in 2010. That number should shrink further to 26 (24 of them in Africa) by 2015 and to 4 by 2050. Despite these changes, however, there is both a "youth bulge" and a growing working-age population in LDCs.

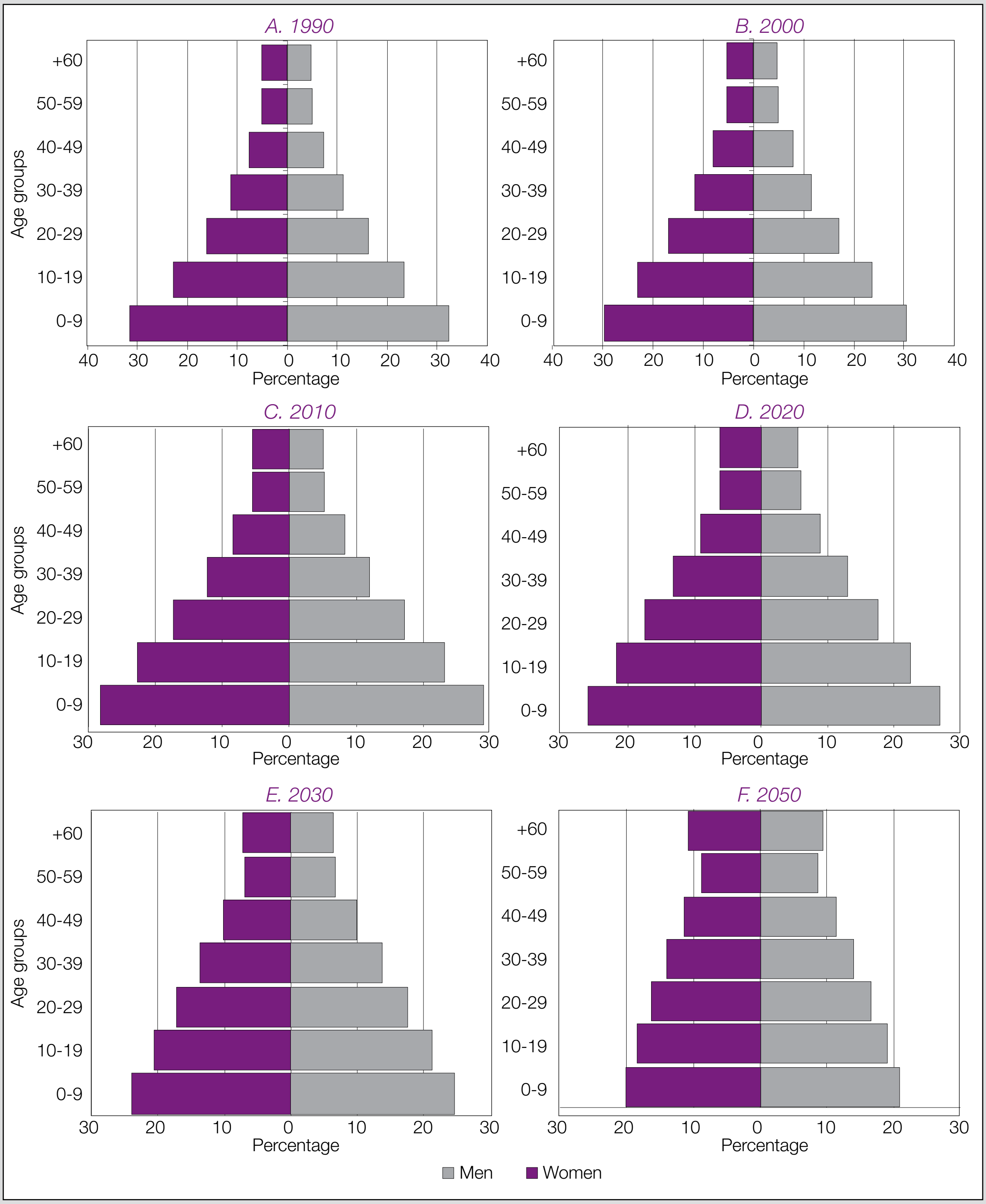
By 2050, one in four 15–24-year-olds worldwide will live in an LDC.

The data presented in chart 10 show the declining LDC dependency ratios between 2010 (77 per cent of the working-age population) and those forecast for 2050 (57 per cent), a trend evident since 1980. African LDCs have the highest dependency ratios — 80 per cent in 2010 — which will shrink to around 60 per cent by 2050. Asian LDCs are consistently below the LDC averages, accounting for 63 per cent in 2010 and a projected 48 per cent by 2050. However, they will remain above the ODC average for both 2010 and 2050. For Asian LDCs, forecasts suggest a rising share of old-age dependants, who will account for 17 per cent of the total population by 2050.

The LDC youth population could potentially drive growth in new and innovative directions.

As we see in chart 11, LDCs as a group will continue to experience strong growth in the number of young people aged 10–24, which is expected to increase sharply between 2010 and 2050. In the developed countries, by contrast, the youth population peaked in 1980 and has been declining ever since. The situation is similar in ODCs, whose youth population peaked in 2010 and should decline thereafter. By 2050, one in four 15–24-year-olds worldwide will live in an LDC (see chart 12). A burgeoning youth population could have major implications for labour markets, with a relatively low absorption rate of new entrants, rapid urbanization and concomitant pressure on the health and sanitation infrastructure in urban centres, which in many LDCs is already at breaking point. Economic growth and political stability could suffer as well in many LDCs (World Bank, 2013). On the other hand, the LDC youth population could potentially drive growth in new and innovative directions through a rise in

Chart 9. LDC population by age groups, 1990–2050



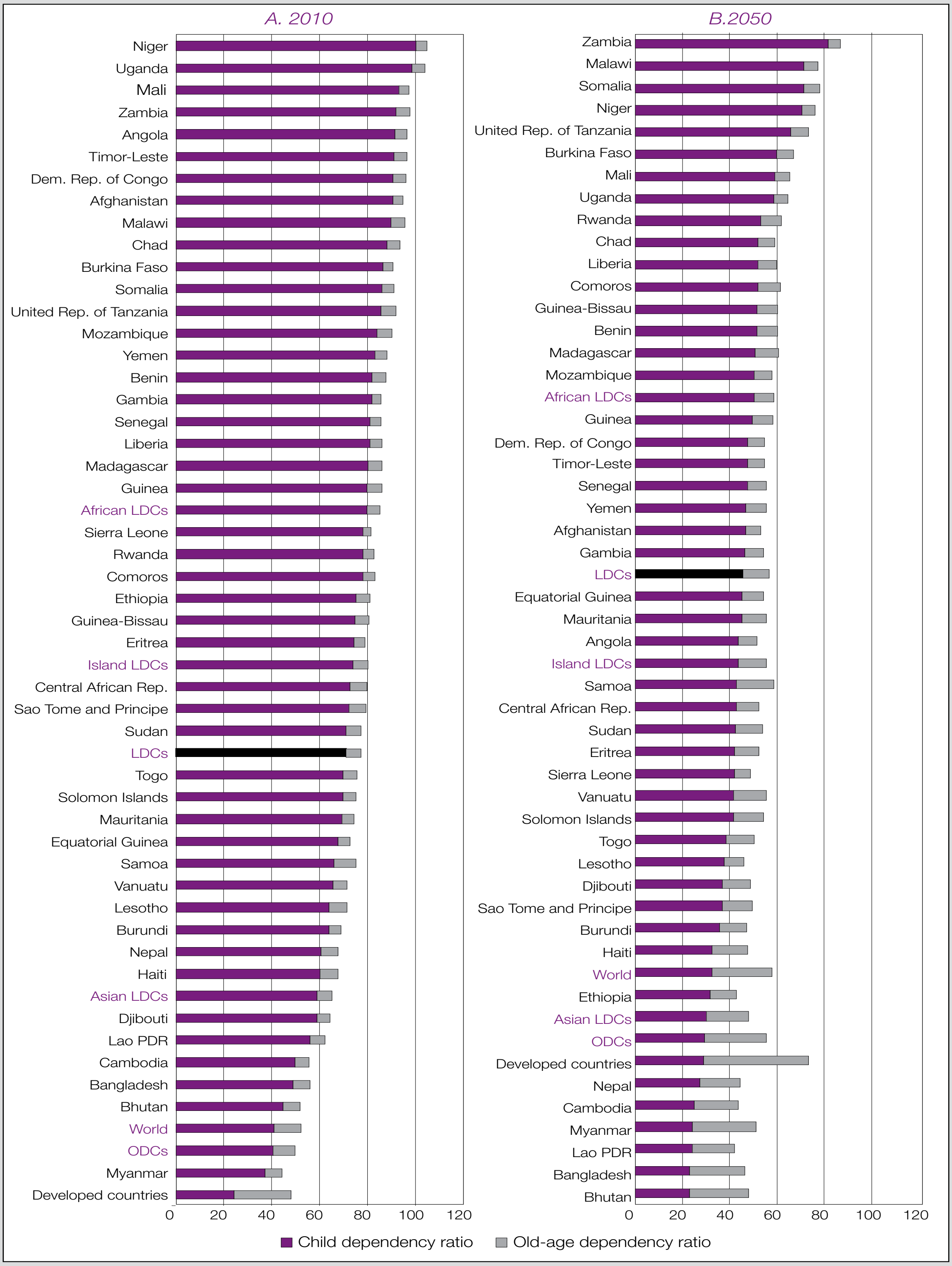
Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2012). *World Population Prospects: The 2012 Revision*, CD-ROM.

information and communication technology (ICT) and enterprise development and through higher levels of education, creativity, and talent, which will be crucial to future prosperity.

The Asian LDCs are forecast to have the lowest share of youths in the LDC group (51 per cent of the Asian LDC population in 2015 and 34 per cent in 2050).

As shown in chart 12, the Asian LDCs are forecast to have the lowest share of youths in the LDC group (51 per cent of the total population in 2015 and 34 per cent in 2050). These countries are strongly influenced by drivers of change in Bangladesh, the most populous member of the group. However, although they

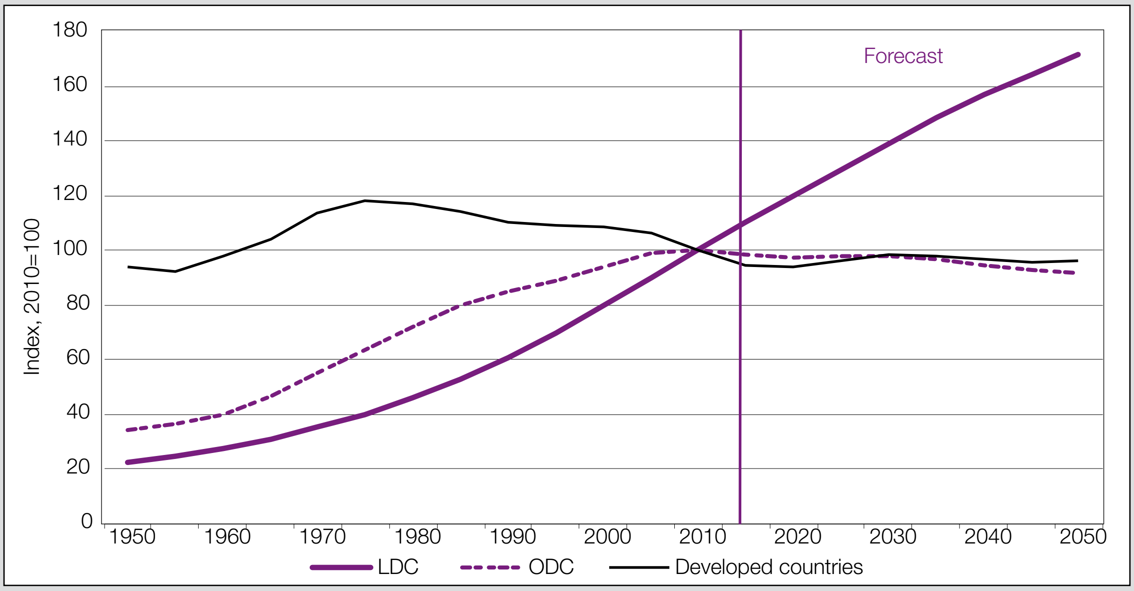
Chart 10. LDC dependency ratios, 2010 and 2050



Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2012). *World Population Prospects: The 2012 Revision*, CD-ROM.

started from a relatively low base, the Asian LDCs have a growing and significant share of old-age dependants. The share of youths in the total population of island LDCs, like their African counterparts, is above the LDC average (61 per cent in 2015 and a projected 48 per cent in 2050). In LDCs where mortality levels at young ages remain high compared to ODCs, over the next 40 years life expectancy is still expected to be higher at birth than at older ages (UNICEF,

Chart 11. Youth population, (10–24 years), 1950–2050
(Index, 2010=100)



Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2012). *World Population Prospects: The 2012 Revision*, CD-ROM.

2013. In Asian LDCs, on the other hand, decreasing fertility, along with greater life expectancy, is reshaping the population age structure by shifting the relative weight from younger to older groups. At this point it is difficult to determine the extent to which rising international migration contributes to the changing age distribution, or whether it has a more significant impact than fertility and mortality rate changes (UNCTAD, 2012).

A declining dependency ratio, together with a growing working-age population, should in theory provide a demographic dividend and development opportunity for LDCs.

Although the proportion of African LDC youths in the total population is expected to decline from 60 to 50 per cent by 2050, it will remain above the LDC average. The demographic transition will probably be slower in African LDCs than other least developed countries. In Asian LDCs, there is already an increasing downward trend in both the number and share of youths in the total population, due largely to declining fertility rates. For example, in Bangladesh a sharp drop in the fertility rate from seven children per woman during the 1970s to three in the 1990s has slowed population growth and gradually changed the age structure. Because of population ageing, the number of children and young people under 15 years of age (approximately 47 million) is unlikely to rise significantly, which should help Government in planning the education and health systems.

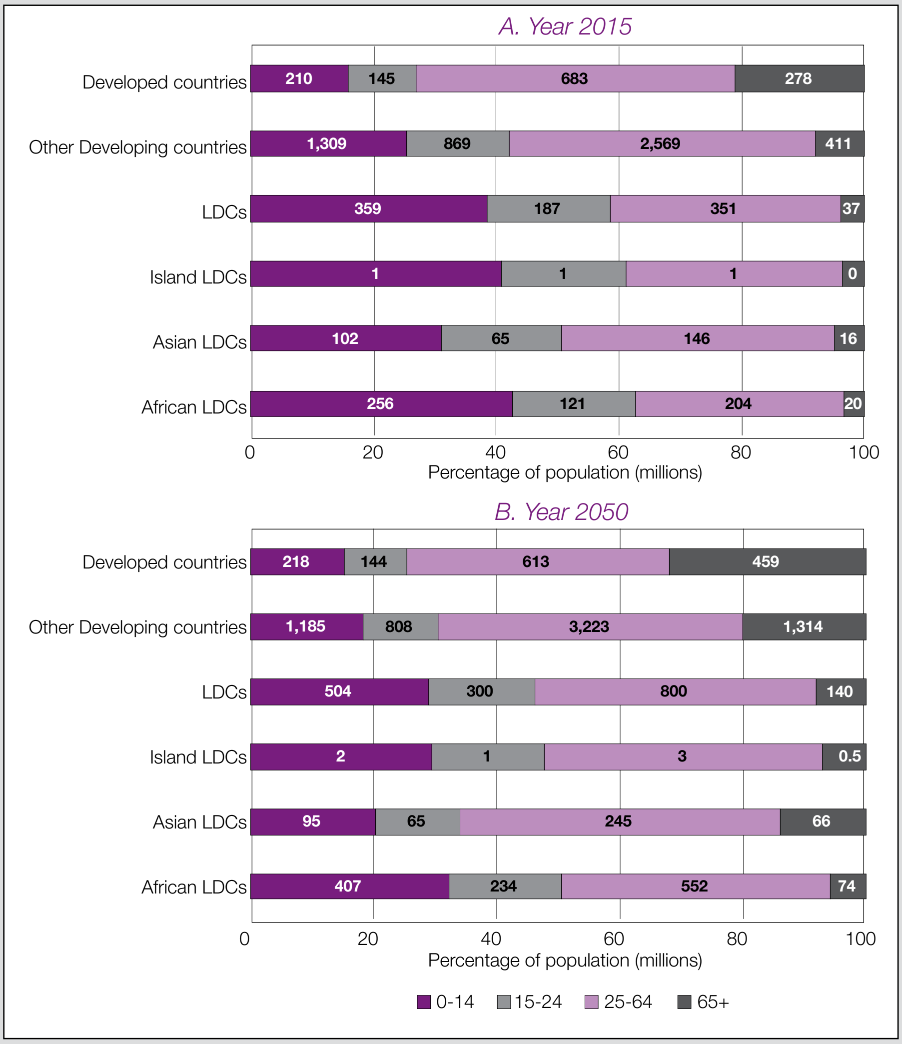
The youth bulge is set to persist in the medium term. This will put greater pressure on the labour market.

A declining dependency ratio, together with a growing working-age population, should in theory provide a demographic dividend and development opportunity for LDCs. Bloom et al. (2003) maintain that a decline in the number of dependants can enable households to increase investments in human capital (particularly education and health), and that a rise in the working-age population can potentially expand a country's productive output. The Asian LDCs will face the challenge of exploiting the demographic dividend earlier than other LDCs because their socio-economic and health indicators (e.g. fertility rates) are improving more quickly, resulting in a faster decline in the share of dependants and an increase in the share of the working-age population.

While investment in education is rising, employment prospects remain uncertain.

It is clear from the foregoing that the youth bulge is set to persist in the medium term. This will put greater pressure on the labour market, as numerous

Chart 12. Age distribution of LDC and ODC populations, 2015 and 2050
(Millions)



Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2012). *World Population Prospects: The 2012 Revision*, CD-ROM.

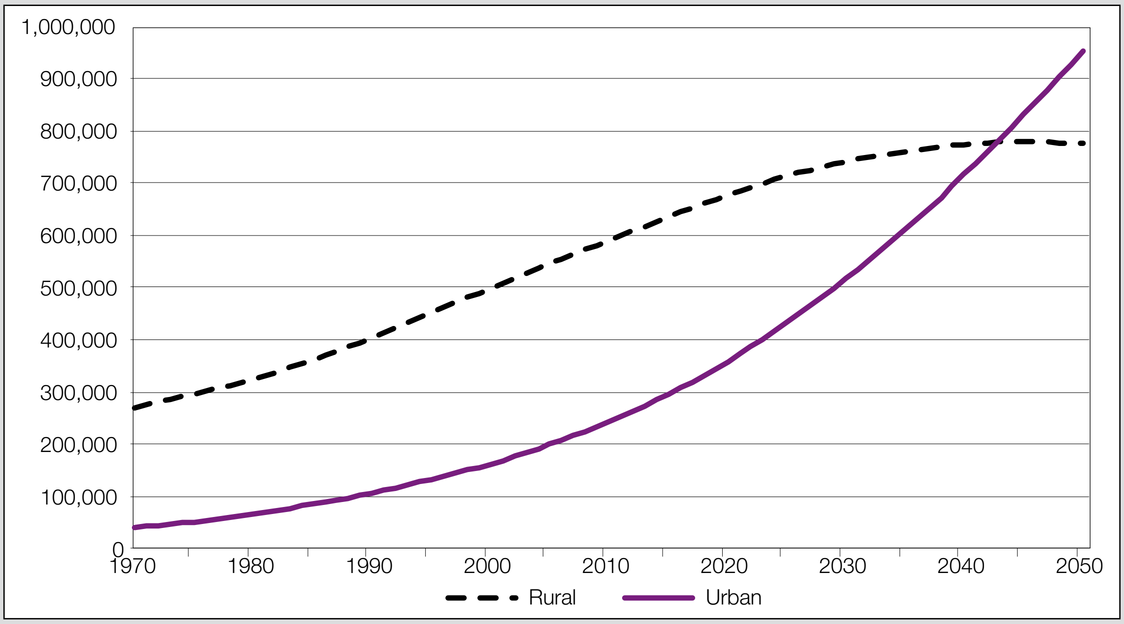
cohorts of new entrants will seek employment in the near future. The promise of a demographic dividend requires investment in youths, their training and their employment. Critically, over the past 20 years LDCs have made significant investments in education, and remain on track to achieve universal primary education and gender equality (MDGs 2 and 3, respectively). In addition, the net primary enrolment ratio increased by more than 25 per cent over the past two decades, reaching 80 per cent in 2011, and the secondary school enrolment ratio rose to 32 per cent (table 7). Thus, while investment in education is rising, employment prospects remain uncertain (see chapter 3).

Around two thirds of the LDCs' population live in rural areas.

2. Urbanization and rural–urban labour migration

Despite strong LDC growth during the period 2002–2008, very little structural change has occurred, and progress in reducing vulnerable employment has been limited (McKinley and Martins, 2010 and UNECA, 2010). The relationship between demographics and employment in the LDCs is perhaps most clearly articulated through the following drivers of change: rising urbanization, rural–urban migration, growing pressure on natural resources and gender equality.

Chart 13. LDC rural-urban population trends and forecasts, 1970–2050



Source: UNCTAD secretariat calculations, based on FAO, FAOSTAT, online, 30 May 2013.

Most LDCs have a large rural population, although there are some exceptions (such as Angola, Djibouti, Gambia, Liberia and Sao Tome and Principe, all of whose rural populations account for less than 50 per cent of the total population). Around two thirds of the LDCs' population live in rural areas, and these zones will probably continue to host the majority of the population until 2040 (see chart 13).

The urban population growth rate has been nearly three times higher than that of the rural population since 1980.

As shown in table 8, the current level of urbanization in LDCs is 28 per cent, which is about 20 percentage points below the world average (50.5 per cent). That level should reach 39 per cent by 2020, largely because of rising rural–urban migration, high fertility rates and population growth. Based on the average annual urban population growth rate of 4 per cent during 2010–2020, the LDC urban population should expand by 116 million, with the rural population rising by 87 million. If these demographic trends (e.g. rural–urban migration, high fertility rates, etc.) persist, the rural population should start declining by 2035 (see chart 13).

Since most people in LDCs reside in rural areas, greater urban drift will support higher rates of emigration, unless major LDC urban centres can generate higher levels of employment.

Nevertheless, the urban population growth rate has been nearly three times higher than that of the rural population since 1980 (see table 9). Concerns about the pace of urbanization and its impact on living conditions in large conurbations (especially basic infrastructure) are thus well placed, especially because such conurbations host over 60 per cent of the urban population in sub-Saharan

Table 8. LDC distribution of population and labour, 2000–2020

		Distribution of population (percentage)			Absolute numbers (thousands)			Average annual change (percentage)	
		2000	2010	2020	2000	2010	2020	2000-2010	2011-2020
African LDCs	Rural	69.9	65.9	61.4	298 454	367 570	438 878	2.1	1.8
	Urban	30.1	34.1	38.6	103 279	158 524	240 371	4.4	4.3
Asian LDCs	Rural	77.9	72.6	67.1	198 831	219 793	235 145	1.0	0.7
	Urban	22.1	27.4	32.9	59 034	83 352	117 101	3.5	3.5
Island LDCs	Rural	68.2	65.4	62.5	1 757	2 185	2 626	2.2	1.9
	Urban	31.8	34.6	37.5	640	909	1 322	3.6	3.8
Total LDCs	Rural	75.7	71.9	67.3	499 042	589 548	676 649	1.7	1.4
	Urban	24.3	28.1	32.7	162 953	242 785	358 794	4.1	4.0

Source: UNCTAD secretariat calculations, based on FAO, FAOSTAT, online, 30 May 2013.

Table 9. Urbanization and pressure on land in the LDCs, 1980–2011

	1980	1990	2000	2011
Population density (people per sq. km of land area)	19.2	25.2	32.6	42.6
Urban population (percentage of total)	17.3	20.9	24.3	28.3
Urban population growth (annual percentage)	5.7	4.6	3.8	3.8
Rural population (percentage of total population)	82.7	79.1	75.7	71.3
Rural population growth (annual percentage)	2.1	2.2	2.0	1.6
Agricultural land (percentage of land area)	37.1	38.1	38.6	38.3
Arable land (percentage of land area)	6.2	6.5	7.0	8.1
Arable land (hectares per person)	0.3	0.3	0.2	0.2
Forest area (percentage of land area)	-	32.8	31.1	29.7
Renewable internal freshwater resources per capita (cubic metres)	12'131[a]	9'320[b]	6'685[c]	5'465

Source: UNCTAD secretariat calculations based on UNTADstat and World Development Indicators online databases.
Note: *a* 1982 data; *b* 1992 data; *c* 2002 data.

Africa (SSA) and 35 per cent in southern Asia. The rate of LDC rural–urban migration is mounting and will continue to do so until at least 2050. It is therefore likely that — as previously mentioned — since most people in LDCs reside in rural areas (an average 71 per cent of the population in 2011), greater urban drift will support higher rates of emigration, unless major LDC urban centres can generate higher levels of employment (UNCTAD, 2012; Lewis, 1954).[7] If — as in China, India and Brazil — LDC urbanization and GDP growth rates rise, and the outflow of resources from the rural (agricultural) sector to urban areas is exacerbated, demand for food will grow as well. This will increase the pressure to raise agricultural productivity in LDCs and may also encourage policymakers to look more closely at the role played by rural–urban migration in economic development. The urgency of this policy challenge is dramatically illustrated in table 9, which documents the mounting pressure on natural resources.

With a population density already twice that of the 1980s, the availability in LDCs of arable land per person may continue to decline.

With a population density already twice that of the 1980s, and with only marginal expansion of the agricultural frontier (mostly in SSA), the availability in LDCs of arable land per person may continue to decline (see table 9). In per capita terms, renewable internal freshwater resources have also fallen by more than one third in the space of 20 years. Furthermore, the problems posed by the declining size of farms in terms of poverty and food security — not to mention distributional issues — are likely to be aggravated by the potentially disruptive effects of climate change on land productivity, especially in marginal areas (see also chapter 3 of UNCTAD, 2009). The critical nature of this additional policy challenge was clearly reflected in the negotiations at the United Nations Conference on Sustainable Development (Rio+20).[8] The immediate priority for most LDCs, however, is to foster environmentally sustainable socio-economic development and employment in those rural areas that host the majority of their population.

An immediate priority for most LDCs is to foster environmentally sustainable socio-economic development and employment in those rural areas that host the majority of their population.

The LDC rural population as a share of the total population has also declined steadily since 1980. In the African LDCs' urban population, the percentage change is 4.4 per cent; in the rural population, 2.1 per cent. In Asian LDCs, the figures are 3.5 per cent and 1.0 per cent, respectively (see table 8). In 2012, Burkina Faso, Eritrea and Uganda reported the highest urban population growth rates in all the least developed countries (see annex table 12 for data on individual LDCs).

Most LDCs have not been able to generate sufficient productive off-farm jobs to absorb the growing labour force seeking work outside agriculture.

As the population grows, agricultural farms decline in size and new farms are increasingly located on marginal land.[9] Mass poverty means that many people cannot afford the means for the sustainable intensification of agricultural production. More and more people are thus seeking work outside agriculture, and urbanization is accelerating. Most LDCs have not been able to generate sufficient productive off-farm jobs to absorb the growing labour force seeking work outside agriculture. Both agricultural and non-agricultural enterprises have been severely challenged to compete following the widespread and deep unilateral trade liberalization and regional trade agreements that began in the 1990s.

As previously stated, rural–urban migration in LDCs is on the rise. The rural underemployed tend to move to urban centres or other rural areas where there is demand for labour to work as unskilled labourers. They often earn low wages and incur extra costs for travel and accommodations. Their remittances are often small — for example, in African LDCs whose citizens mainly migrate within their home country or to neighbouring countries — but again, this depends on where they move and on the prevailing wage differentials. The other qualification is that migration can be highly uneven between regions, between villages and within communities (UNCTAD, 2012).

LDCs are confronted with an imperative need both to increase agricultural productivity and to foster the creation of greater income opportunities in high value added rural activities.

Policymakers in the LDCs are hence confronted with an imperative need both to increase agricultural productivity and to foster the creation of greater income opportunities in high value added rural activities. In this respect, UNEP/ILO (2012) estimates that over the next decade, the shift to sustainable agriculture in developing countries could increase global employment by 4 per cent, while also helping to preserve the quality of the soil and of the natural environment. In any event, support for sustainable agricultural practices should be complemented by more effective development of rural non-farming activities. Such activities provide a broad range of opportunities to promote economic diversification, employment and potential spillovers, thereby encouraging further transformation in the agricultural sector. A similar strategy, which necessarily hinges on a better and more widespread provision of key infrastructure (such as irrigation, roads and electricity), would intrinsically dampen the push factors that lead to rapid urbanization and informalization in the LDCs and relieve some of the pressure on agricultural land.

If, as expected, an additional 630 million people enter the LDC labour market between 2010 and 2050, these countries will be confronted with even greater employment and development problems.

3. Conclusions

If the recent patterns of growth and structural change explain the LDC "employment challenge" with respect to labour demand and sectoral reallocation, demographic developments complement them on the labour supply side. This chapter has highlighted the importance of the demographic dynamics underlying LDC efforts to achieve poverty reduction, decent employment and social development. Given their limited progress towards the Millennium Development Goals (MDGs) (UNCTAD, 2010) and their demographic situation, the scale of the employment challenge facing LDC policymakers cannot be overestimated.

If the right socio-economic policies are formulated — such as increased investment in health, gender equality, training, education and employment — the LDCs will have an opportunity to realize the demographic dividend.

The chapter has also highlighted the scale of the demographic challenge faced by the LDCs: As previously mentioned, their population, about 60 per cent of which is currently under 25 years of age, is projected to double to 1.7 billion by 2050. If, as expected, an additional 630 million people enter the LDC labour market between 2010 and 2050, these countries will be confronted with even greater employment and development problems. In addition, although the proportion of people in the LDCs living on less than $1.25 per day (i.e., in situations of extreme poverty) has fallen, the number has continued to rise due to high population growth.

However, high fertility rates and population growth have tended to slow the demographic transition in LDCs, potentially delaying the demographic dividend.

For most LDCs, the realization of a potential demographic dividend — one where the dependency ratio is at its lowest — will depend upon the policy mix adopted to encourage future job creation and growth. If the right socio-economic policies are formulated — such as increased investment in health, gender equality, training, education and employment — the LDCs will have an opportunity to realize the demographic dividend. But despite the fact that many LDCs have experienced high levels of economic growth since 2002, the persistence of relatively high rates of population growth, poverty and low human development indicators means that such growth has not translated into improved living standards and decent employment for most people. As a consequence, high fertility rates and population growth have tended to slow the demographic transition in LDCs, potentially delaying the demographic dividend.

Rising educational levels and youth bulge will be crucial for future growth, innovation and employment in the LDCs.

This chapter has also stressed the importance of human development (e.g. access to sexual and reproductive health care, education and health services) as part of a more balanced approach to development in LDCs. Such an approach would stress the potential complementarities required to promote inclusive growth and employment in LDCs. For example, although the LDCs' primary and secondary education enrolment and youth literacy rates have improved since 1990, they are still below the levels in ODCs and developed countries (United Nations, 2013). In any event, the rising educational levels and youth bulge will be crucial for future growth, innovation and employment in the LDCs.

Many LDCs are now at a critical stage of development, one with rapid population growth and a changing rural employment challenge.

In short, many LDCs are now at a critical stage of development, one with rapid population growth and a changing rural employment challenge. As population densities rise, farms decline in size and farmers increasingly cultivate more ecologically fragile land, agricultural productivity is likely to remain perilously low. Because of these factors, and as already noted, the rates of LDC urbanization and emigration are expected to remain high.

Given the clear demographic challenges discussed in this chapter, the LDCs will need to make significant efforts to generate a sufficient volume of jobs to provide decent employment in the medium term. The benefits of the potential demographic dividend arising from this substantial rise in population growth are not unconditional. Successful exploitation of that dividend will depend on the ability of the LDC economies to absorb and productively employ not just new labour market entrants, but those who are presently unemployed or underemployed. The sustained creation of productive employment and the development of productive capacities will be particularly important in countries where extreme poverty affects the majority of the population and where the Government is unable to address the problem through redistribution (UNCTAD, 2010a; McKinley and Martins, 2010; Ravallion, 2009).

Appendix 1

This Report highlights the following key employment-related provisions of the IPoA (United Nations, 2011):

[Principles guiding the implementation of the Programme of Action:]

- Balanced role of the State and market considerations, where the Government in least developed countries commits to design policies and institutions with a view to achieving sustainable and inclusive economic growth that translates into full employment, decent work opportunities and sustainable development. The State also plays a significant role in stimulating the private sector towards the achievement of national development objectives and creates an appropriate enabling stable, transparent and rules-based economic environment for the effective functioning of markets (para. 29(h)).
- Partnerships with the private sector play an important role for promoting entrepreneurship, generating employment and investment, increasing the revenue potential, developing new technologies and enabling high, sustained, inclusive and equitable economic growth in least developed countries (para. 38).
- Building a critical mass of viable and competitive productive capacity in agriculture, manufacturing and services is essential if least developed countries are to benefit from greater integration into the global economy, increase resilience to shocks, sustain inclusive and equitable growth as well as poverty eradication, achieve structural transformation, and generate full and productive employment and decent work for all (para. 44).

[Action by least developed countries:]

- Strengthen the capacity of domestic financial institutions to reach out to those who have no access to banking, insurance and other financial services, including through leveraging the contribution of, among others, micro-finance, micro-insurance, and mutual funds, in creating and expanding financial services targeted to poor and low-income populations, as well as small and medium-sized enterprises (para. 45.1(d)).
- Promote women's entrepreneurship to make better use of untapped economic potential in least developed countries (para. 55.1(d)).
- Strengthen institutions, including cooperatives, to boost smallholder farmer food production, agricultural productivity and sustainable agricultural practices (para. 60.2(a)).
- Promote the empowerment of rural women as critical agents for enhancing agricultural and rural development and food and nutritional security and ensuring their equal access to productive resources, land, financing, technologies, training and markets (para. 60.2(k)).

[Policy measures on education and training … will be pursued in line with the following goals and targets:]

- Ensure universal access to free primary education in least developed countries by increasing the enrolment and retention rates, and also increase access to secondary, tertiary and vocational education and skill development training (para. 73(a)).

[Action by least developed countries:]

- Ensure that formal and informal education systems provide the skills training required by the labour market, particularly for the youth to achieve full and productive employment and decent work (para. 74.1(d)).
- Social protection has both short- and long-term benefits to sustainable economic growth, poverty eradication and social stability. Social protection systems, including cash transfers, public works programmes, and unemployment benefits, protect the poor and support growth, employment and broader economic resilience. These systems act as stabilizers for the economy, bolster the resilience of the poor and help prevent people from falling into poverty (para. 91).

[Action by development partners:]

- Strengthen support for least developed countries affected by conflict to address country-specific needs and situations, including broad-based, inclusive and rapid socio-economic development with a special focus on rebuilding national institutions and capacity, rebuilding critical infrastructure and generating productive employment and decent work for all (para. 130.2(l)).

Notes

1 The demographic transition comprises the following four stages, with the LDCs currently situated between stages 2 and 3:

  1. Both death and birth rates are high and approximately in balance.
  2. Death rates fall rapidly due to improvements in food supply and sanitation, which increases life expectancy. Without a corresponding fall in birth rates, countries in this stage experience high rates of population growth.
  3. Birth rates decline due to improved access to contraception, urbanization, better wages, greater gender equality and access to education. Population growth begins to level off. This may produce a “demographic dividend”.
  4. Birth rates and death rates are both low.

2 See United Nations Department of Economic and Social Affairs, Population Division (2012). World Population Prospects: The 2012 Revision, CD-ROM.

3 Underemployment reflects underutilization of the productive capacity of the employed population.

4 Based on data from UNCTADstat online database, September 2013.

5 A demographic transition produces a “demographic dividend”. Many developing countries have reached the point in their demographic transition where the largest segment of the population is of productive working age and where the dependency ratio declines dramatically, leading to a demographic dividend. The ratio also shrinks significantly at the point where fertility rates continue falling and older generations have shorter life expectancies. When combined with effective public policies, the demographic dividend can help facilitate economic growth, reduce family pressures and encourage women to enter the labour force.

6 The dependency ratio reflects the number of people of non-working age compared to the number of those of working age (15–64 years old). The dependency ratio shows the proportion of dependents per 100 members of the working-age population. A high ratio means that those of working age — and the economy in general — face a greater burden in supporting an ageing or youthful population. The youth dependency ratio includes only under-15s, while the old-age pensioner dependency ratio focuses on those over 64. The dependency ratio does not account for people aged 65+, an increasing proportion of whom work (and are therefore not dependent), or those of working age who are unemployed.

7 Lewis (1954) maintained that surplus labour from the traditional agricultural sector is transferred to the modern industrial sector, whose growth over time absorbs the surplus labour, promotes industrialization and stimulates sustained development. Rural–urban migration is accordingly the means by which surplus labour in the

traditional (agricultural) sector is re-deployed to fill rising modern (urban) sector labour demands. Migration is demand- or employment-driven rather than being driven by wages, which are assumed to be fixed. However, the Harris-Todaro model (1970) identified the decision to migrate as a function of wage differentials, moderated by the availability of job opportunities. In theory, formal sector urban earnings exceed the rural wage rate (or the marginal return to own-account farming), and potential migrants armed with this information assess the probability of attaining urban employment (i.e., the rate of urban employment).

8 See United Nations, The Future We Want, Rio + 20, http://www.uncsd2012.org/rio20/about.html (10 January 2012).

9 When arable land per farmer is declining, that land is used with an increasing intensity of inputs (especially labour and capital) per hectare, but diminishing marginal returns lead to a fall in per capita income and living standards (Jayne et al., 2003; Jayne and Muyanga, 2012). In addition, growing pressure on land tends to induce the development of marginal low-quality arable land (UNCTAD, 2009).

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